

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  INTERSTATE POWER COMPANY, IES UTILITIES INC., and MIDAMERICAN ENERGY COMPANY	DOCKET NOS. ARC-98-150 ARC-98-151 ARC-98-156
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**FINAL REPORT**

(Issued August 12, 1999)

IOWA CODE § 476.6(16) (1999) and IOWA ADMIN. CODE 199-20.12(1) (1999) directs the Utilities Board (Board) to conduct an annual proceeding to evaluate the reasonableness and prudence of each rate-regulated public utility's procurement and contracting practices relating to the acquisition of fuel for use in generating electricity. The statute requires each proceeding to be conducted as a contested case pursuant to IOWA CODE chapter 17A (1999). The statute further provides that if the Board determines from the evidence that a utility is not taking all reasonable actions to minimize its fuel costs, the Board shall not allow the utility to recover from its customers fuel costs in excess of those costs that would be incurred under reasonable and prudent policies and practices. The burden is on each utility to prove that it is taking all reasonable actions to minimize its purchased fuel costs. IOWA ADMIN. CODE 199-20.13(2)"c" (1999). The Board notes that while IOWA CODE § 476.6(16) was recently amended to require a periodic, rather than an annual, review of fuel procurement practices, the Board's rules continue to provide for an annual review.

On May 13 and 15, 1998, Interstate Power Company (Interstate), IES Utilities Inc. (IES), and MidAmerican Energy Company (MidAmerican) filed annual fuel procurement plans pursuant to IOWA CODE § 476.6(16) and IOWA ADMIN. CODE 199-20.13(1) and (2). On June 11, 1998, the Board docketed the filings as separate contested case proceedings and established a joint procedural schedule for each docket.

The procedural schedule provided the Consumer Advocate Division of the Department of Justice (Consumer Advocate) and any intervenors were to file prepared direct testimony on or before June 30, 1998. Consumer Advocate submitted prepared direct testimony in each of the dockets. Consumer Advocate did not recommend any rate disallowances. There were no intervenors in any of the dockets.

Hearings were held in the three ARC dockets on September 3, 1998. The hearings focused on coal supply at each utility's electric generating plants and the utility's plans to increase inventory to an adequate level. On September 25 and November 5, 1998, and February 17, 1999, the Board issued orders requiring MidAmerican, IES, and Interstate to file additional information regarding coal inventories and rail schedules. Each utility filed the required information. The final information was filed on or before May 15, 1999.

IOWA CODE § 476.6(16) (1999) requires an evaluation of the reasonableness and prudence of a utility's procurement and contracting practices. This "evaluating" process does not require a binding ruling on procurement and contracting practices. The statute imposes upon the Board or its designee a duty to disallow recovery from

utility customers of increased fuel costs if a utility is not taking all reasonable actions to minimize its fuel costs. Nonetheless, the failure to disallow increased fuel costs in these proceedings does not mean the utilities have met their burden of proof that their plans are reasonable and prudent. Rather, it simply means that the records in these proceedings do not contain sufficient evidence to warrant a disallowance of fuel costs. Such evidence might later be presented, for example, in a rate case proceeding.

IOWA CODE § 17A.12(6)"f" permits the conclusion of contested case proceedings with a report rather than a decision or order with preclusive effect. The Board, having examined each utility's filing with respect to its procurement and contracting practices, will close these dockets with this report stating its general conclusions on the record submitted.

The fuel procurement policies of each rate-regulated public utility continue to be appropriate subjects for consideration in, for example, rate case proceedings and future ARC proceedings. The Board generally finds utilities covered by this proceeding have exhibited adequate procurement and contracting practices.

Each utility testified at hearing that rail problems were the major contributor to low inventory levels. The information filed by each utility subsequent to the hearings indicates that coal inventory levels are improving. The utilities' latest filings in these dockets, which provided inventory levels as of April 30, 1999, show that coal inventory at most plants is at or near the utilities' target levels.

Coal inventory levels are of particular concern because of the added uncertainty that Year 2000 considerations present. The Board is specifically

monitoring inventory levels for all electric utilities as Year 2000 approaches in its ongoing inquiry "Year 200 Readiness Among Iowa Utility Companies," Docket No. NOI-98-2. In addition, the Board will examine coal inventory levels for Iowa's three investor-owned utilities in conjunction with the 1999 ARC filings. The 1998 ARC dockets are therefore no longer needed to monitor coal inventory.

The reliability of supply and low-cost fuel in the current energy market place continues to offer utilities a potential for great savings on new purchases. Projected fuel procurement savings associated with merger activities should help mitigate any commodity or transportation increases. The Board encourages each utility to continue their investigation of available options so Iowa ratepayers can receive safe and reliable service at the least cost.

**UTILITIES BOARD**

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Raymond K. Vawter, Jr.      /s/ Diane Munns  
Executive Secretary

Dated at Des Moines, Iowa, this 12<sup>th</sup> day of August, 1999.